

Political Strategies of Small Firms

ABSTRACT

This paper investigates how small firms develop political strategies in response to coercive political initiatives emanating from political organizations. Extant literature has mainly focused on large firms and has assumed that SMEs are passive adopters of coercive political initiatives. This paper is based on business network theory, where business-government relationships have been studied in relation to small firms and influenced by corporate political strategy. A framework of firm's prerequisites built around three concepts: political commitments, political knowledge, and business-political legitimacy have been developed. This analytical framework is used to explain how small firms take strategic political actions to change coercive initiatives into support for their businesses, which is illustrated empirically with a case study. Instead of passive adaptive behavior, the paper shows how small firms can influence coercive political initiatives and what kinds of decisions are made to actualize the proposed political strategy.

Key words: small firms, political strategy, network, political knowledge, political commitments and business-political legitimacy

Introduction

Lively debate has been ongoing for many years among French, Dutch, and Italian veal producers about a common definition of veal. Given the diverse breeding models in Europe, the European Commission proposed a new regulation, (EC) 1183/2006, on the marketing of the meat of bovine animals aged 12 months or less. The aim of the regulation was to promote better organization of production, processing, and marketing of meat in the EU. Prior to the regulation, the major problem was that meat from different production systems was marketed under a single sales description. The situation distorted trade, encouraged unfair competition, and hindered the establishment and functioning of the internal market, since all Member States had their own definitions. Lack of a joint classification could also cause confusion and mislead European consumers. A compromise was reached in 2006 that resulted in an age classification stating that bovine animals less than eight months of age should be classified as *veal* and bovine animals more than eight months but less than twelve months of age as *beef*. However, this model did not fit Swedish production models. Implementation of the regulation would threaten the entire veal industry in Sweden, since Swedish *kalv* (calves) would be categorized under *beef* and thus not be classified as veal. This regulation is one among many where political actors have used their legitimate power to influence the market by making decisions and implementing market rules that affect firms. In general, such interaction is manifested in coercive or supportive political initiatives by political organizations (Hadjikhani and Thilenius, 2005). Coercive initiatives are legal rules that firms must follow, while supportive initiatives are legal rules, financial support, and subsidies (Hadjikhani & Sharma, 1999). In their strategic response to political initiatives, firms can either seek to influence through negotiation and cooperation or adapt to the political rules with which firms are forced to comply (Hadjikhani & Ghauri, 2001; Hillman & Hitt, 1999).

Up to now, research on business-government interaction has mainly focused on large firms. This holds true for studies following a business network perspective (e.g. Ghauri & Holstius (1996), Welch & Wilkinson (2004), Hadjikhani & Thilenius (2005), Hadjikhani & Lee (2006), Elg et al. (2008), and Sun et al. (2010), as well as studies in corporate political science, including Baysinger (1984), Zardkoohi (1985), Hillman et al. (2004), Bonardi et al. (2005), Hillman (2003), Hillman & Wan (2005), and Risopoulos & Sergakis (2010). There are few studies focusing on small firms. Hadjikhani & Ghauri (2001) compared the political behavior of MNEs with exporting SMEs. Their study showed that large firms have the ability, knowledge, and commitment to influence policies in the EU, while small firms due to lack of political knowledge and commitment feel powerless to influence EU initiatives and are thus forced to adapt. The purpose of this paper is to investigate how small firms develop political strategies in response to coercive initiatives by political organizations. Taking off from the coercive initiative, the overarching research question is how small firms develop political strategies in response to political initiatives. The study advances previous research on business-political interaction (e.g. Hadjikhani & Ghauri, 2001; Bengtson et al. 2011) and a framework from corporate political science (Hillman & Hitt, 1999) is integrated into the network perspective to better understand political strategies from the individual firm perspective in networks.

The paper is organized as follows: first, strategy is discussed from a business network perspective. Second, political strategy is discussed from a business network and corporate political perspective. These two perspectives are then integrated to arrive at a research model, after which case study methodology is reported. This leads to the fourth section, where the case is presented in relation to a coercive initiative in the agriculture sector proposed by the European Commission in 2006. Fifth, the case is analyzed and discussed based on the concept of political strategy from a network perspective. The paper ends with the

conclusions of the study as well as its limitations, implications, and suggestions for further research.

Earlier contributions on political strategy

Firms operate in networks of connected business relationships (Andersson et al., 1994) and the business network is based on a web of connections where exchange in one relationship is connected to exchange in another. In every network, there is a power structure where different actors have varying power to act and to influence the actions of other actors (Håkansson & Johanson, 1988). The relationships and networks approach identifies the firm's range of relationships and its network resources as the key factors in strategy formulation (Baraldi et al., 2007). From this relationships and networks perspective, firms have a restricted view of the surrounding network and limited freedom. The outcomes of their actions will be dependent upon the actions of other firms within the network (Baraldi et al., 2007). Gadde et al. (2003) argue that the strategizing task is to identify the relevant action, either within existing or potential relationships, rather than from the focal firm's point of view. Thus, no strategy is assumed to work in isolation (Håkansson & Snehota, 1989) and it is not possible for a single actor to develop a relationship in the desired direction (Gadde et al., 2003). Firms are therefore dependent on their relationships. The exchange within a network allows a firm to acquire knowledge about its relationship partners, including their resources, needs, capabilities, strategies, and other relationships (Johanson & Vahlne, 2009).

Whereas most research from this perspective has focused on strategy in business relationships and networks, several researchers have focused on the management of strategy in business-political relationships (e.g. Hadjikhani, 2000; Ghauri & Holstius, 1996; Hadjikhani & Ghauri, 2001; Welch & Wilkinson, 2004; Elg et al., 2008; Hadjikhani et al., 2008; Sun et al., 2010). In this vein, the political strategy of firms has been related to the ability to influence political actors to gain support for their businesses, strengthen their competitive position in international markets, and, most importantly, to change coercive initiatives in the firm's favor. The ability to influence has been interrelated to concepts of legitimacy, commitment, and trust (Hadjikhani & Lee, 2006), as well as knowledge (Hadjikhani & Thilenius, 2005; Hadjikhani & Ghauri, 2006; Bengtson et al., 2009). Hadjikhani & Lee (2006) define competitive behavior for positioning a firm in the non-business market as the firm's resource commitments, trust-building actions, and actions to create and maintain legitimacy in the market. In their view, political commitment has been conceptualized as the size of investment firms make in the counterpart (Hadjikhani and Ghauri, 2001). This may involve time, money, and other resources that firms invest to manage their relationships with non-business actors and the political environment.

The concept of legitimacy has by Hadjikhani & Lee (2006) been divided in two ways: gaining legitimacy through 1) the size of the firm's business market and business exchange and 2) through interaction with non-business actors. The legitimacy of an actor is constructed on the surrounding actors' knowledge about how an actor's performance preserves the rule of mutuality and maintains its own interest and that of others (Hadjikhani et al., 2008). These variables are all related to resource-rich MNEs who strategically influence political actors to gain trust and legitimacy. Hadjikhani & Lee (2006) stress that the more political commitment and knowledge a firm has and the more influence it exerts, the more specific support it can receive to maintain and/or develop its competitive position. The converse is low levels of political commitment and knowledge, which lead to low levels of influence; the firm will perceive relationships as coercive and thus deleterious to the competitive position. Although previous studies have assumed that small firms behave this way, there is an emerging development in this field where focus has been on the political strategy of small firms.

Bengtson et al., (2011) studied how small entrepreneurs can develop relationships with political organizations to strengthen their business opportunities. They related the ability to influence to political relationships, commitment, and political knowledge. Commitment in political relationships refers to resources such as the amount of time managers spend on each political issue and dealing with political organizations (Hadjikhani et al., 2008), while political knowledge refers to knowledge about counterparts' needs and demands related to the political issue. Knowledge about political actors can promote firms' political strategy and Bengtson et al., (2009) defined political knowledge as knowledge about political decisions and the political actors involved in decisions, and understanding the needs of the connected actors. Hadjikhani & Thilenius (2005) consider political competency in their study, where they compared the political behavior of MNCs and SMEs in developing and developed countries. Political competency is defined by the authors as 1) knowledge about positive and negative political decisions, 2) knowledge about government and bureaucratic agencies, 3) knowledge about decision and execution processes, 4) utility of existing political and business relationships, and 5) political ability in terms of mobilizing resources.

Somewhat different to the relationships and networks approach, which identifies the firm's range of relationships and its network of positional resources as key factors in strategy formulation (Baraldi et al., 2007), are studies on the corporate political view of political strategy as posited by Hillman & Hitt (1999). Grounded on the resource-based-view (Barney, 1991), this view focuses on the individual firm's control of physical capital, human capital, and organizational capital. The interdependencies between firms and political actors encourage firms to develop political strategies and determine how and when they should interact (Wilts & Skippari, 2007). Hillman and Hitt (1999) have developed a decision tree of political strategy formulation involving three steps; 1) the approach to political strategy, 2) levels of participation, and 3) specific strategies and activities. The first decision in Hillman & Hitt's (1999) model of political strategy formulation refers to the firm's approach to political strategy, which can be either transactional or relational. The transactional approach concerns the firm's commitment to public policy issues without building a strategy to affect the issue. This approach is characterized by short-term exchange relationships. The relational approach is characterized by long-term exchange relationships where firms aim to build relationships across issues over time.

The second step is levels of participation, or how firms engage in political activities, either through individual or collective action (Hillman and Hitt, 1999). Individual action refers to the individual firm's action to influence public policy by lobbying policymakers. Collective action refers to a situation where two or more firms or individuals collaborate and cooperate towards the same end, for example through trade associations. The decision to take individual or collective action is dependent on the actors' resources. Firms whose financial resources and/or other intangible resources are constrained are more likely to participate collectively. Collective political activity can come in many shapes; Wilts & Meyer (2005) study lobbying through trade associations, Kautto (2007) studies lobbying in terms of ad hoc coalitions, and Bouwen (2002) and Wilson (1990) study the involvement of third parties, such as consultants or lawyers, rather than individual lobbying or various forms of collective actions.

The third step refers to the specific strategies and activities employed by firms towards political organizations and actors. Political strategy is related to lobbying and other influential activities taken by firms towards governments and public opinion. Boddewyn (1988) describes these activities as resources and refers also to alliances and bribery. The difference between lobbying and bribery is that in lobbying, firms can persuade politicians to change the rules to their advantage, while by bribing bureaucrats firms can only hope to stop

the latter from enforcing the rules (Campos and Giovannoni, 2007). Welch and Wilkinson (2004) also stress the importance of political activities in which lobbying is an important component, but they suggest three additional political activities: policy-making, policy learning, and international diplomacy. This view is closely related to Bengtson et al., (2009) where political knowledge refers to the capacity to influence.

Research model

From the two perspectives introduced, we know that for political strategy in networks firms need to: 1) make political commitments 2) have/gain political knowledge and 3) gain legitimacy. These are critical elements and prerequisites for realizing a political strategy in the network. From the corporate political view we know that political strategy decisions can be related to the 1) short/long-term approach, 2) individual/collective action, and 3) specific activities a firm employs. These are considered the strategic political behavior of firms in the network. Consequently, strategic political behavior in a network is dependent on the firm's prerequisites in the network. Figure 1 below illustrates the dynamics of change and development of prerequisites and strategic political behavior. In the following, the dependencies between firms' prerequisites and strategic political behavior in networks will be discussed in more detail.

A firm's decision to take a short-term or long-term approach when it makes commitments to public policy issues is connected to the resources that the firm possesses or has access to. The concepts of political knowledge and resource commitment thus become crucial to decisions regarding the approach firms take when managing coercive political initiatives. Hadjikhani & Ghauri (2001) show in their study that large firms have a long-term approach and commit resources to specific political organizations, whereas small firms, due to their resource constraints, react when the issue arises. The short-term approach of small firms is also supported by Bengtson et al., (2011), which call it *loosely-coupled issue-related relationships* that are mainly active when an issue demanding political action is raised. In their reasoning, they posit that issues come up, relationships are activated, and when the issues are resolved, the relationships lose their intensity. Accordingly, the firm has to commit resources and search for new knowledge with partners with whom they have a more stable relationship. The network view assumes that firms manage the external effects or pressure from their environment jointly with their business partners.

When it comes to resource-constrained firms, small firms have been assumed to take collective action. Consequently, the use of external actors' resources, apart from the firm's internal resources, becomes essential. Figure 1 is based on the prerequisites of firms in networks, regardless of firm size. The individual and/or collective action is neutral in that sense, as large firms also influence political initiatives collectively at times. The choice of individual and/or collective action thus becomes dependent on the specific issue at hand. As far as firms' specific strategies vis-à-vis public policy, firms need to have knowledge about the initiative and where in the life-cycle the specific issue or regulation is. Having that knowledge is dependent on firms' degree of embeddedness in their relationships and their political knowledge and commitment. It is also necessary for firms to have business and political legitimacy when they perform specific political activities. Consequently, when firms increase their political commitments, they also increase their political knowledge and thus have the prerequisites for developing a political strategy, regardless of whether short-term or long-term, individual or collective action. Once they have actualized a political strategy, firms will gain new political knowledge from that experience. The more a firm's political knowledge increases, the more political commitments they will make, and thus uncertainty about future commitments will decline. The likelihood of increasing the level of political commitments lies in the understanding of the importance of political strategy; consequently,

allocating resources to specific political activities becomes a natural part of a firm's overall strategy.

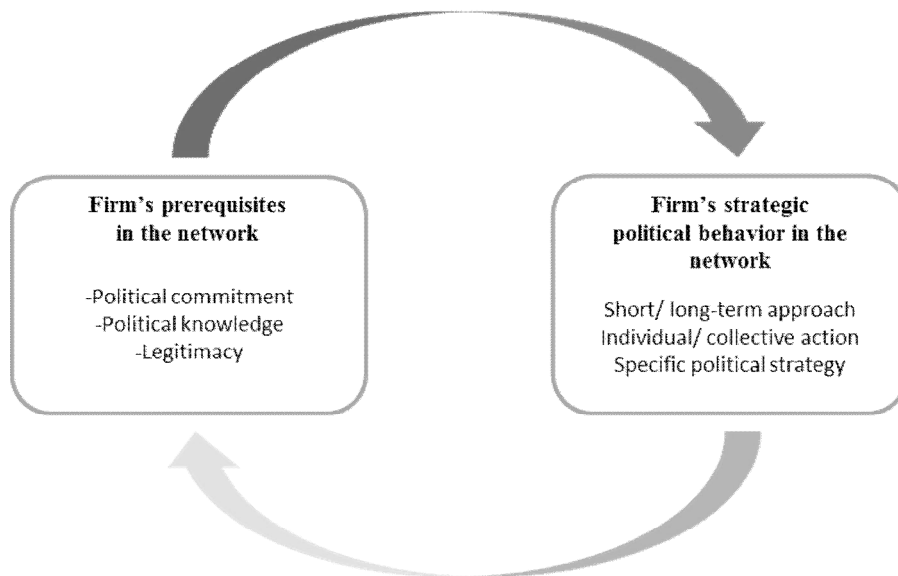


Figure 1 Conceptual model: Firms' political strategy in networks

Methodology

A case study approach has been undertaken to investigate how small business firms develop political strategies in response to coercive initiatives by political organizations. Case studies are the preferred strategy when “how” and “why” questions are being asked, when the investigator has little control over events, and when the focus is on contemporary phenomena in a real-life context (Yin, 1994). Case studies also contain a variety of data sources (Eisenhardt and Graebner, 2007). Generally, case study methodology, through its narratives, is particularly good at generating novel analytical perspectives, exploring new theoretical relationships, and reframing old causal linkages (Eisenhardt, 1989). The findings discussed in this paper are derived from a single case study. It is the research problem and objectives that influence the number and choices of cases to be studied (Ghauri & Firth, 2009). Ghauri & Firth (2009) argue for the appropriateness of single cases when a critical case is used 1) to explain or question established theory, 2) to extend existing theory, and/or 3), to represent “outstanding successes” or “notable failures.” Previous research in this field has focused on the political strategy of multinational firms and less attention has been paid to small firms. Therefore, the single case in this paper is justified thus: 1) a case of one small firm's political strategy, 2) the case is an outstanding success, and 3) the case extends the theory and cross-fertilizes two streams of research.

The respondents were identified through snowball sampling (Biernacki & Waldorf, 1981). Based on the interviews with the focal firm, the empirical journey proceeded with other business and political actors involved in the narrative to get their perspective on the process. The actors in the context identified and perceived as relevant and important to the focal firm are those considered when studying the political strategy of the firm. In total, 10 people were interviewed. Interviews were conducted with individuals in a range of positions including, the CEO of the focal firm, the CEO of KCF, the purchasing manager of Scan, the chief government inspector at the Swedish Board of Agriculture, a municipal marketing manager, the regional director of the Swedish Federation of Business Owners (*Företagarna*),

and the head of beef issues at the Federation of Swedish Farmers (LRF). To limit bias, all respondents were experts who view the focal phenomena from different perspectives (Eisenhart and Graebner, 2007).

All interviews for this paper were conducted using a semi-structured approach (Merriam, 1998) in which general questions were prepared and asked. The pre-formulated questions helped focus the discussion on the subject area, while leaving room for adjusting the questions to follow up on the respondent's answers and ask further questions on site. This flexibility was very fruitful, as pre-information was limited about the respondents' involvement in the process and the aim was to map the network and the actors involved. When it comes to business firms, the questions concerned matters such as the political issue, identification of the parties involved in dealing with a certain political issue, and the impact of coercive political initiatives on their business and business partners. Seven interviews were face-to-face and three were by telephone. Notes were taken and all face-to-face interviews were recorded with the permission of the respondent. The face-to-face interviews took 60-90 minutes to complete and were held in Swedish on the respondents' premises. Notes were taken during and after the interviews, which were used as a background for the analysis. Complete transcriptions were made shortly after each interview. For the purpose of the analysis, narratives of each interview were constructed as case stories. It is important to begin by "telling a story" about a situation and progressing in chronological order to see how the variables are interconnected (Ghauri & Firth, 2009). Apart from personal interviews, various types of written secondary data such as brochures, government documents, EU documents, etc., were used to gain a deeper understanding and acquire the necessary information about the specific case. Verification was primarily achieved through different means. The validity procedure used was member validation, where copies of the empirical section of the paper were sent to respondents for comments and feedback and to reduce the risk of misinterpretation and ensure the validity of transcripts.

Empirical background: veal breeding models in Europe

EU Member States have a common agricultural policy and a large share of the EU budget is spent on agricultural policy. Veal breeding is a large industry on the Continent, where breeding models differ in many respects from Swedish breeding models. Studies have shown that the organoleptic characteristics of meat, such as tenderness, color, and flavor, change with the age of the animals from which it is obtained and the feed used (OJ L 161, 11.6.2007). In Continental Europe, it is quite common to buy a large number of calves, often thousands of them and often across borders, and then administer prophylactic antibiotics to the animals to lower the risk of putting so many animals into the same building. Because pale veal is more popular, producers raise calves on iron-deficient feed and the calves become pathologically anemic (interview, CEO of KCF). In extreme cases, barns are built with no iron fixtures since the producers do not want the cattle to lick such fixtures to obtain iron, which leads to darker, redder meat (interview, CEO of KCF). In these regions, including France, Italy, and the Netherlands, calves are raised solely on milk powder which results in faster growth and whiter meat compared to calves raised on another diet. This breeding model is prohibited under the animal welfare laws of certain countries, including Sweden, because it does not provide the calf with a balanced diet including grain, hay, etc. Consequently, Swedish calves grow more slowly and are older and have redder meat when slaughtered. In an attempt to improve the functioning of the internal market, a new regulation, (EC) No 1183/2006, defines veal by age and divides the bovine animals into two different age categories:

1. Category V: bovines from the day of birth until the day they reach the age of eight months (veal)

2. Category Z: bovines from the day after reaching the age of eight months until the day they reach the age of 12 months (beef)

In May 2006, the Swedish Ministry of Agriculture had been advised by the Swedish Board of Agriculture (*Jordbruksverket*). The Board of Agriculture has a classification board with representatives from Swedish Meats, the Swedish University of Agricultural Sciences (SLU), Kalmar County Slaughterhouses (KLS), COOP Sweden AB, wholesale meat distributors, and Swedish small-scale slaughterhouses. The purpose of the board is to get industry input regarding classification rules for meat and related matters. The Swedish Board of Agriculture guided the Swedish Ministry of Agriculture in arriving at the definitions of each category. They had followed the definitions used in the United Kingdom (UK), where meat from animals slaughtered at the age of 8 months or younger is called “veal” and meat from animals slaughtered at the age of 8 to 12 months is called “beef.”

Case presentation

Veal breeding is a rather small niche in Sweden. One of the largest producers, a farm that breeds about 1,500 animals per year, is the focus of this study. Veal breeding has been the core business on the farm since the turn of the millennium. Every year 1,500 calves age 8-10 months are sent to slaughter and the meat is sold to a meat packer. The meat is then delivered to selected retailers, market halls, and restaurants in various locations in Sweden. The producer is a member of a meat club and arranges field trips every year to various places around the world, aimed at increasing their own knowledge of agriculture, and that of others in the industry. It was on a field trip that the producer was made aware of the new EU regulation (EC) No 1183/2006. By the time the producer became aware of the proposal, by coincidence, it was at a very late stage. The producer had organized a field trip to the Netherlands with his colleagues in the industry. Debates about the regulation had been ongoing for a long time in the Netherlands, where the veal industry is quite large. The discussion about a uniform age classification of veal had been ongoing for several years in the large veal consumption countries, such as the Netherlands, France, and Italy. These actors have also been active in Brussels with the European Commission. The regulation was originally a result of the discussion in these countries and was considered a compromise. Compared to these countries, the regulation was a minor issue in Sweden, but for this producer and others in the business, the issue was very serious (interview, regional director of *Företagarna*). In a report dated September 27, 2006, the Swedish Ministry of Agriculture had classified the issue as low priority (12708/06 AGRIORG 69, AGRIFIN 68). According to the proposed regulation, Swedish veal would no longer be classified as “veal,” but rather in the less attractive category of “young beef.” This would have been disastrous for the veal industry in Sweden where calves are about 9-10 months old at slaughter and account for about 99 percent of calf breeding in Sweden (National Food Administration, reference 2534/06). Under this proposal, Swedish veal would now be marketed as lower-priced and less attractive beef (interview with the producer).

Political behavior at various levels and by different actors

According to the producer, this uniform classification of bovine animals, that is, veal, had endangered his business due to a change in production classification. It would not only seriously harm the producers; it would also impact Swedish dairy producers, the welfare of the calves, and Swedish consumers. The producer realized this quickly, and once he had returned from the Dutch field trip, he contacted his interest and business organization, the Federation of Swedish Farmers (LRF), concerning the matter. The reason the producer contacted LRF was that he had been a member of and active in the local chapter of the

organization for many years. When the producer contacted LRF, he realized that they were not updated on the matter. The organization thought the issue had already gone too far and there was no opportunity to influence the outcome at that point.

However, unwilling to give in and aware of the consequences, the producer pursued the matter on his own. Searching the Internet for documents on the websites of the European Parliament and European Commission, he found out more about the regulation and how other countries had dealt with the matter. The producer also realized that not even the Swedish Meat Industry Association (KCF), which represents more than 95 percent of actors in the Swedish meat industry, was aware of the regulation. Backed up by these findings, the producer wrote to the Swedish Ministry of Agriculture in October 2006, even though he knew no one at the Ministry. In his letter, he explained the problems and the consequences the new classification would have for the Swedish veal industry. In the documents from the European Parliament and the Commission, he had discovered how Denmark had handled the issue. The Danish model proposed that meat from calves less than eight months old should be called “pale veal” and meat from calves over eight months called “veal.” In his letter to the Swedish Ministry of Agriculture the producer suggested the Danish model that had already been adopted in Denmark. The producer also sent a copy of his letter to the EU minister, the minister in charge of consumer affairs, LRF, KCF, Swedish Meats, the Swedish Veterinary Association, a Swedish consumers’ organization, Swedish beef producers, the Swedish Board of Agriculture, and the National Food Administration. By the time the producer sent his letter, the Swedish Ministry of Agriculture had during negotiations already recommended the solution adopted in the UK without consulting industry experts like KCF or producers in Sweden. The Swedish Ministry of Agriculture had been advised by the Swedish Board of Agriculture.

Meanwhile, based on the producer’s suggestion and with support from its members, the CEO of KCF contacted the Ministry and the head of beef issues at LRF. The CEO of KCF has good relationships with civil servants and ministers at the Ministry and believes it is easy to communicate with them and express viewpoints. KCF discovered that the Ministry already had taken a position on the matter and that the Board of Agriculture had led them in that direction. With this in mind, the CEO wrote an editorial in the organization’s newsletter, which is distributed throughout the industry. This is their way of taking a position. Based on the producer’s position, he stated the consequences of the definitions in the regulation, saying that it was not only the age categories that would cause problems, and outlined the impact on the veal industry in Sweden. KCF’s aim was to sway the opinion of Swedish politicians so that the Ministry could get it approved by the Commission. The CEO also contacted the Brussels-based European Livestock and Meat Trading Union (UECBV). The organization has members from all of the 27 Member States of the EU, along with a few observer nations such as Russia, Norway, and Switzerland. UECBV had been engaged in this matter from the start and the producer was told that it had been ongoing for several years with no solution. It is generally through the UECBV that KCF is briefed about future changes and new proposals, usually before Swedish government agencies. The producer had frequent dialog with the Ministry, both directly in Sweden and with their negotiators in Brussels. The CEO of KFC was also in frequent contact with the Ministry, his colleagues in UECBV where he followed the discussions in Brussels, and the head of beef issues at LRF, who supported them.

Throughout this time, the producer and the CEO of KFC worked closely together and had ongoing discussions. Negotiators from the Ministry were in contact with the producer by telephone on several occasions and, finally, in November 2006, the Ministry responded that the problem had been drawn to its attention and confirmed that negotiations were in progress. After new input and discussions with the producer and KCF, the Ministry decided to adopt the solution that the producer had proposed (the Danish model). The

Ministry had raised the priority of the issue from low to medium (13773/06 ADD 1, AGRIORG 80, AGRIFIN 81). After meetings in Brussels, the new regulation resulted in Council Regulation (EC) No. 700/2007, with the new Swedish definitions.

In early 2007, the Swedish Board of Agriculture found out about the new proposal that originated from the producer and was determined to change the Ministry's opinion. They thought that it was unnecessary to name the first category *pale* veal. It would suffice to call it "veal." Their reasoning was that in the Swedish production model, veal is rarely pale and if so, it would go under the star (1-3) classification. This would be misleading to consumers and would most likely damage trust in the entire labeling system. Veal is normally a pale meat from young cattle. The prefix *pale* leads to the understanding that the meat was produced as prime veal, a production method that is against Swedish animal welfare laws. For the second category, the Board of Agriculture was mainly concerned about the inconsistency that would occur between existing EU regulations regarding veal classification. The Ministry would present the definition of the two proposed categories to the European Commission in future negotiations.

A few months later, the producer received a letter informing him that the Ministry had adopted the suggestion in meetings held in June 2007. The Finns had also adopted the Danish/Swedish model. The Swedish Ministry of Agriculture also confirmed to the CEO of KCF that it was the efforts of the producer and KCF that made them change their stance. Commission Regulation (EC) No 566/2008 was finalized and the new regulation would go into effect July 1, 2008.

Impact on customers, suppliers and competitors

Council Regulation (EC) No 566/2008 does not only affect the producers of veal, Swedish dairy producers, the animals and consumers, it also has consequences for business customers, such as slaughterhouses, meatpackers, and retailers. According to the regulation, bovine animals must be classified in the slaughterhouse in two categories: V (bovines from birth to 8 months) and Z (bovines between 8 and 12 months of age). The category identification must also be applied to the meat packages in stores. This will require additional labor for retailers, which will have to do the double-labeling of meat packages in the store, but will only create more confusion for consumers. When consumers buy veal, they now have to choose between two categories: veal and pale veal. The mere fact that it is called pale veal does not necessarily mean the meat is pale; on the contrary, "pale veal" can also be dark red. Scan is Sweden's largest supplier of veal, with a total market share above 50 percent. Scan buys about 225,000 bovine animals per year, of which 30,000 are calves. Sweden is self-sufficient when it comes to veal; under this classification, the supply of the younger category will probably decline, which is likely to be a problem since Sweden does not import much veal (interview, purchasing manager at Scan). Scan has no export sales, other than minor exports of organic beef to the UK. The domestic market is the strongest and best so far.

Scan believes that one of the most serious consequences of the classification is that veal will not have the same standards and quality as before. In dialog with their largest customers, Axfood, ICA, and Coop (also the only retail buyers of veal), Scan decided to only purchase calves in the Z category (older than 8 months but younger than 12 months) because consumers do not want more than one kind of veal. Implementing this decision will require amendment of contracts with their producers and control towards the Z category. In practice, this will lead to an increase in the weight groups, meaning they will be extended from 120-164 kilos to 120-184 kilos. The other alternative, including the pale veal category, would have resulted in several complications. Before the regulation, Swedish calves were about 9-10 months of age at the time of slaughter. After the regulation was implemented, these calves would fall into category Z (bovine animals aged more than 8 months but less than 12 months).

A calf normally weighs around 160 kilos, while adult cattle weigh 300-400 kilos and do not have the same characteristics and quality as veal. So, the main reason for excluding the V category is that Scan and its customers do not believe this is the right way to go. The market is not ready for a price increase and margins are tight as they are. Therefore, according to Swedish Meats, this is the only way to avoid major consequences for the market. “So, instead of changing the law, they change their terms towards their suppliers” (interview, purchasing manager at Scan). Council Regulation (EC) No 566/2008 is a compromise that is not ideal for any of the parties involved, according to the CEO of KCF. The producer has good, long-term relationships with its customers and believes that whatever happens, they will find a model that suits all actors involved. Another aspect is that this new regulation would open the market to new types of producers, namely beef producers who can market big bulls as veal, as long as they are less than 12 months old (purchasing manager, Scan). The network diagram below shows all actors involved.

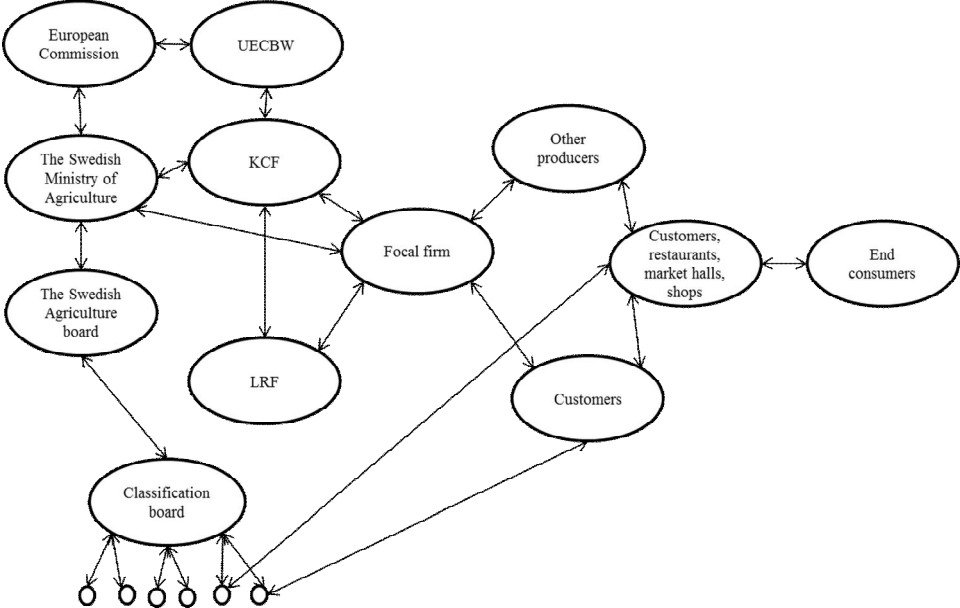


Figure 2: actor illustration

Discussion

Council Regulation (EC) No 1183/2006 could have devastating consequences for the Swedish veal industry. Previous studies have shown how MNEs in their internationalization process deal with political actors in the host markets to gain support for their businesses (Welch & Wilkinson, 2004; Hadjikhani & Ghauri, 2001; Hadjikhani & Lee, 2006). This case illustrates that domestic small firms are seriously affected by foreign and international policy, such as that of the EU, which implies that domestic firms cannot be totally isolated from the international world and must accordingly develop political strategies to manage not only national but also international political initiatives. In figure Figure 3 below, a summary of the process and main activities in the case is illustrated. In the following section, the discussion will follow the research model (Figure 1). The section will begin by discussing firms’ prerequisites in the network before discussing how the prerequisites enabled the strategic political behavior, and the outcomes.

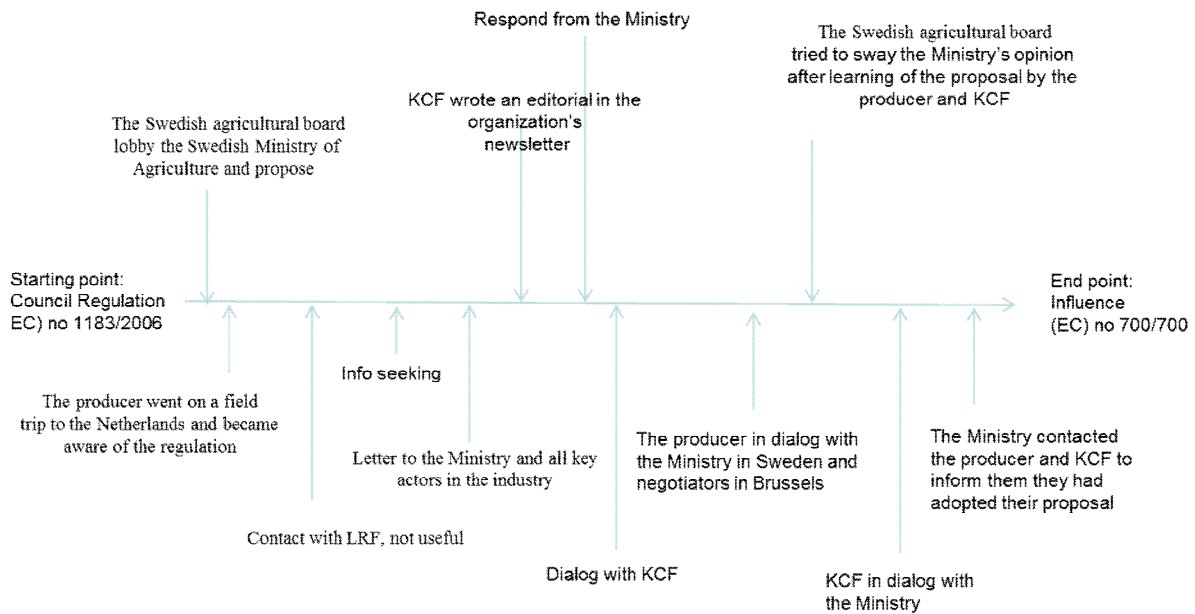


Figure 3: Time line

Firms' prerequisites in the network

The case clearly illustrates the importance of the critical elements of political strategy: political knowledge, political commitment, and legitimacy. The analysis of these three aspects is summarized in Table 1.

Political commitment was illustrated by the amount of time and resources spent on political issues. The producer had been a member of LRF for many years and had thus made commitments by paying membership dues and attending meetings. The producer also committed time to learn more about the regulation and how it had been handled in other countries and specifically in Sweden. Past experiences and interactions with political actors can improve managerial skills and lead to increased activity in the political arena (Wilts & Skippari 2007). The producer had previous experience of political processes and strategies since he had been very active in the local chapter of LRF. This local, political embeddedness turned out to be very important in his efforts to plan his political strategy in the attempt to save his own business and thus the entire veal industry. Another type of commitment that the producer has made is his involvement in the meat club and arranging field trips, which turned out to be how he found out about the regulation. Accordingly, the producer's previous political commitments and his commitment to this specific issue will most likely lead to increased levels of political commitment in the future.

Political knowledge was illustrated in several dimensions. Firstly, the producer had or acquired sufficient knowledge on the specific issue. His political knowledge was thus specific knowledge about the regulation, its effects, and how other countries had dealt with it. Secondly, his political knowledge arose from his membership in LRF. The producer understood the political system and decision making processes in Sweden and at the EU level. Consequently, when the issue arose, the producer knew exactly which political actors he should attempt to lobby and on what level, and was able to identify the key actors in the business and non-business networks in order to utilize and mobilize their resources, commitments in various relationships, and legitimacy. The types of political knowledge illustrated in the case resemble what Hadjikhani & Thilenius (2005) call "political competency."

Business-political legitimacy was the third critical element in a firm's political strategy, according to the research model. The producer is one of the largest actors in Sweden and thus legitimate by virtue of his large market share. He also has good knowledge about the agriculture industry. When he found out about the regulation, he instantly realized what the effects of the regulation would be for all actors involved. Just as Hadjikhani et al., (2008) posited, the legitimacy of the producer was constructed on his knowledge, not only by maintaining his own interests, but also that of others. Legitimacy is a political resource that firms want to secure because it facilitates the acquisition of economic resources in their value-added chains, as well as access to non-business actors (Boddewyn & Brewer 1994). Having this type of legitimacy strengthens the producer's legitimacy and position in the network, among both business and non-business actors. This will be a critical resource in the future.

Table 1 Firms' prerequisites in the network

Political commitment	<ul style="list-style-type: none"> • The producer had been a member of LRF for many years. • The producer is very active in LRF local organization. • The producer arranges field trips around the world every year, aimed at increasing knowledge on agriculture.
Political knowledge	<ul style="list-style-type: none"> • Due to his membership in LRF, the producer knows the political system well, both in Sweden and at EU level. • The producer had/acquired sufficient knowledge on the specific issue. • The producer knew exactly which actors he should try to lobby.
Legitimacy	<ul style="list-style-type: none"> • The producer is one of the largest actors in Sweden. • The producer knows the industry well. He instantly realized what the effects of the regulation would be for all the actors involved

Firms' strategic political behavior in the network

The critical decisions that firms of all sizes need to make, but with the "right" political prerequisites, are whether to take a short-term or long-term political approach, take individual or collective action, and which specific lobbying activities they should undertake. As discussed in the research model, these decisions are all contingent on critical elements of political strategy discussed above. A summary of the producer's critical decisions is provided in Table 2.

Table 2 Firms' strategic political behavior in the network

Approach to political strategy: short-term/long-term	<ul style="list-style-type: none"> •Short-term: The producer found about the regulation in a very late stage of its life-cycle. However, as he realized the effects of the regulation, he had to act and had the political knowledge to pursue the matter. •Long-term: Commitments to LRF
Level of participation: Individual/collective	<ul style="list-style-type: none"> •Individual: The producer had political knowledge and commitment. •Collective: The producer's first reaction was that he wanted to go through LRF in which he had made commitments to for years. However, the producer combined his individual efforts by involving the CEO of KCF.
Specific strategies	<ul style="list-style-type: none"> •The producer wrote a letter to the Swedish Ministry of Agriculture, the EU minister, the consumer minister, LRF, KCF, Swedish Meats, The Swedish veterinary associations, Swedish consumers' organization, Swedish beef producers, Swedish board of agriculture and the national food administration •The producer mobilized the network • KCF wrote an editorial in the organization's newsletter •Direct dialog with the Swedish Agricultural Ministry, both the producer and KCF •The producer and KCF are legitimate actors.

The short-term approach taken by the producer was that he found about the regulation at a very late stage in its life-cycle. However, because he realized the effects of the regulation, he had to act and had the political knowledge to pursue the matter. Nevertheless, even a short-term approach is a strategy in itself. This is contrary to Hillman & Hitt's (1999) view on the short-term approach, since they consider this to be firms' commitment to public policy issues *without* building a strategy. In this particular case, the long-term approach was not directly related to the specific issue, but to the long-term commitments that the producer had made to his trade association over many years, in terms of paying membership dues and actively participating in meetings and so on. The producer had great trust in his trade association and respect for its ability and knowledge, but in this specific case, they were not initially helpful. However, it was the producer's long-term and often silent political commitment that brought

the issue to his attention. The case also illustrated the producer's approach as issue-based. He had no previous relationship with representatives or ministers at the Swedish Ministry of Agriculture, but he acted when the issue arose. This is similar to Bengtson et al., (2011), who define loosely-coupled issue-related relationships wherein relationships are activated when an issue arises and lose intensity when the issue is resolved. Nevertheless, even after the issue is resolved and the "new" relationships lose their intensity, the outcome of such relationships is made apparent in terms of strengthened business-political legitimacy and perhaps increased knowledge due to the interaction. If a new issue should arise, the issue-related relationships are still there and could be reactivated and re-intensified. The case also showed lack of interaction between key business and non-business actors. The conflict of interest that prevailed in the industry reflects differing agendas. The Board of Agriculture on one hand had their own agenda as they were reluctant to adopt the "pale veal" definition and preferred the "beef" definition. This could be characteristic of the type of industry, since agriculture is a traditional and somewhat inflexible industry. Due to the type of industry, actors might be hidebound and not particularly open to change. This could be a problem for Sweden, since we sometimes do not keep step with the EU, perhaps due to deeply rooted traditions. Other types of differences between industries are, according to Boddewyn & Brewer (1994), variations in profitability and structure.

Decisions regarding the level of participation and whether to take a collective or individual approach are highly dependent upon firm's resources in terms of political knowledge, political commitment, and degree of embeddedness in their network. Previous studies have pointed out that small firms, due to their resource constraints, normally depend on the resources of their counterparts such as trade associations (Wilts & Meyer, 2005) or ad hoc coalitions and thus act collectively. Kautto (2009) discusses alternative venues for lobbying such as national governments, industry associations, ad hoc coalitions, or a direct approach to the commission. Behind these venues and the choice among them lay different types and degrees of commitment. *Collective action* was the producer's first reaction as he wanted to go through LRF, an organization he had trusted and been committed to for years. Previous studies have shown that small firms, again due to resource constraints, need intermediary actors to reduce the distance to political actors, for example. The question remains, did the producer have inadequate resources to act completely individually? This case showed the opposite; LRF was not at all involved in the process initially and believed they had little chance of having an influence. The case illustrated that trade associations or other industry organizations do not have the expertise and awareness of the consequences of a coercive political initiative to the extent that professionals do. It is in such situations that a firm needs to develop a political strategy. However, it was due to his embeddedness in LRF, the commitments that he had made and the political knowledge that he had gained, that the producer could pursue the matter *individually*. The producer combined his individual efforts by mobilizing other actors in the network to act collectively. This was not due to resource constraints, but because he was aiming to gain more attention and have more powerful impact on the political actors.

The specific activities that the producer engaged in were to write a letter to the Swedish Ministry of Agriculture and other key actors in the industry. His main aim with the letter was to change the coercive initiative. He hoped the letter would be a wakeup call to the key business and non-business actors in the agriculture industry. Simultaneously, the producer initiated a dialog with the CEO of KCF to mobilize the network and, more importantly, to make use of these associations' resources and legitimacy, both in the business network and the political network. The editorial that the CEO of KCF wrote in the organization's newsletter reached more than 95 percent of industry actors. After the producer sent the letter, he had continuous dialog with the Swedish Agricultural Ministry and the CEO of KCF. The

CEO had also a direct dialog with the Ministry. Both the producer and KCF are legitimate actors. The producer is the largest business actor in Sweden and very knowledgeable about the industry, whereas KCF is one of the central actors in the industry, with legitimacy on the national and supranational levels. The Ministry was also lobbied by the Swedish Board of Agriculture, but it was clear that the producer and KCF had a more general concern for the entire industry and not, like the classification board, a somewhat opportunistic approach and thus favorable for only some actors. The specific activities illustrated in this case show that when developing a political strategy, firms must adopt and adjust their activities to the specific setting, issue, actors, and resources at hand and there are thus no given rules for specific lobbying activities.

The outcome of the political strategy and effects on the network

The outcome of the political strategy employed by the producer was influence and thus turning the coercive initiative into support, not only for the producer's business but for the entire veal industry in Sweden. Not only could the classification have devastating consequences for the entire veal industry in Sweden, it would also be a door opener for other actors. If the original classification had gone through, the beef industry would have been able to also take shares of the veal market. The threat from these new competitors would have consequences for meat quality and consumers. It was possible that Sweden, which prior to the regulation had been self-sufficient on veal, would have been forced to import veal from other countries. The case also illustrated that the producer, a single actor, tried to control the effects on the network by acting strategically and influencing political actors. If the producer had not recognized the opportunity to have an influence, the Swedish veal industry would have been eliminated, new foreign actors would have begun operating in Sweden, and consumers would have suffered.

The degree of adaptation can never be eliminated. Even when a firm develops a political strategy and succeeds with the outcome of influence, there are still chances for adaptation due to the political initiative since influence is not always equal to maintaining status quo. Political outcomes can reduce organizational costs (Boddewyn, 1988) but even if the outcome of the producer's political strategy was to successfully influence the Swedish Ministry of Agriculture, the regulations will force the actors in the industry to adapt. The customers, suppliers, meat packers, and retailers are all affected by the new regulations and have to adapt to the two new definitions. The suppliers have to mark the bovine before slaughter; the customers (meat packers) need to separate the bovines in production; and the retailers need to label the packages in stores with the correct definition and age before selling the meat to consumers. All these adaptations are connected to procedural changes and costs for these actors. The effects of the regulation will also impact the producer's business relationships. However, those relationships are long-term and based on mutual trust and dependency. Any type of adaptation in the business relationship due to the regulation will be a compromise favorable to both actors. This could also be explained as a sacrifice made to develop and maintain dyadic and connected relationships (Hadjikhani, 2000) as a result of the compromise the producer and its customers are forced to make as a result of the regulation.

Conclusions, further research, and managerial implications

The purpose of this paper was to investigate how small business firms develop political strategies in response to coercive initiatives by political organizations. This study indicates that even the smallest firm can form a political strategy and successfully influence coercive political initiatives. Small firms still have limited political resources but this study implies that small firms can deal with their political environment individually by mobilizing internal and external resources. However, the firm's internal resources would have not sufficed to change

the coercive initiative. It was in the network in which the producer is embedded that he had acquired the prerequisites to develop and execute a specific political strategy, and it was by mobilizing external actors and their resources that they could jointly influence the coercive political initiative. The network view has helped us understand the arena in which the firm operates – the actors, resources, and activities – while the corporate political view has helped us analyze the individual firm's strategy and thus study how firms behave in this arena.

The power and control that political actors have to regulate business activities affect the stability of the business network and thereby increase the level of uncertainty among actors. Firms, depending on their prerequisites, will respond to the initiatives in order to minimize the degree of uncertainty, sustain, or even strengthen their position in the business network by committing resources in an attempt to control the outcome of such political impact. Accordingly, relationships are the core in the network view and firms become dependent on the critical elements of political knowledge and competency, political commitment, and legitimacy in their political strategy. These elements have been shown to be closely connected to firms' ability to successfully develop a political strategy in its network. The main reason for firms to influence other parties is to change their functions by trying to convince them of the positive effects of making changes and the negative effects of maintaining the status quo in terms of economic and development opportunities for the firm, its customers, suppliers, and even competitors. Political strategy then becomes a firm's strategic political behavior aimed at either preserving or changing the status quo. The case illustrated that the producer had all the long-term prerequisites without knowing it until the issue arose and he needed to act.

However, political strategy is not about being opportunistic in a traditional sense. It is more about business and political legitimacy, having political knowledge, political experience, and being reasonable. Business legitimacy increases political legitimacy as long as it does not promote opportunistic behavior. It is essential for a firm in its political strategy to have political knowledge and competency. However, this type of political knowledge and competency is only acquired through various types of political commitments. These are fundamental prerequisites in political strategy and by fulfilling them firms of any size can act individually and/or pursue the matter jointly with actors who share the same beliefs and agenda. So does size really matter in political strategy? The case illustrated in this paper was a successfully implemented and executed political strategy by a small firm. A firm's scope of action within its network is not as limited and entirely dependent upon the actions of others in their networks. The case illustrated that the producer had freedom to act, but only because of the prerequisites he already had and those he gained through the process. If a new issue should arise in the future the producer has increased his prerequisites to develop a political strategy and will perhaps have a more long-term approach.

An implication for future studies is that economic competition is not seen as the only competition; political resources, such as knowledge about the political market, become equally important and yet another condition among others for survival in the market. Political behavior complements economic behavior (Boddewyn & Brewer, 1994) and should be integrated in the firm's business strategy as the two are interdependent. Li et al., (2009) have studied how competitive position and managerial ties (business and political ties) affect firms' performance. Firms should design an integrated strategy, taking both business and non-business environments into consideration (Baron, 1995). Another implication is that by making long-term commitments to trade associations, firms can gain political knowledge and competency through that membership and participation in different activities. The knowledge gained this way can be fruitful for developing individual strategies. This is rather unique as it has been assumed that small firms do not make political commitments and have no political

knowledge and must rely on collective political action. An important aspect here is what would have happened if the producer's political commitments were low? Hypothetically, if the producer had not made any commitments to his trade associations and had not actively participated in meetings of the meat club, he would not have found out about the regulations. Instead he would have been forced to adapt to the coercive initiative. Nevertheless, the case presented in this paper is a success story where the producer acted strategically from the beginning. What would have happened if he had not acted? Perhaps someone else in the industry would have acted or, in the worst case, the Swedish Board of Agriculture would have implemented their proposal and the producer would have had to change his production.

It would be of interest to do further case studies on small firms and look for other elements besides those identified in this paper that are needed when developing a political strategy and/or to test the analytical model presented statistically. Another interesting angle would be to study whether firms in specific industries are more politically active than in others. The example in this paper is from the agricultural industry, which is heavily regulated. The effects of political initiatives on firms may vary dramatically from one industry to another because some parts may be making more progress in Europeanization than others in integrating the markets. The producer in the case had the prerequisites to exert a political strategy but from a network perspective, the outcome of the strategy, due to the regulation, had consequences for customers, suppliers, and consumers and was not a success. What do these adaptations lead to and how do they affect production lines, procedures, and logistics, contracts, threats of new actors etc.? Finally, there is still much more to do in this field and it is not just about small firms or different venues for lobbying and the consequences of political initiatives but also advancement and cross-fertilization of theory, it would be interesting to see what findings and conclusions that would be reached if the network perspective would be integrated with institutional theory and/or theories on entrepreneurship.

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